

Shareholder Value

The Company is committed to upholding the principles of good corporate governance that supports wealth creation, which in turn drives more investment and employment. These principles highlight an effective board, a sound internal control system as well as transparency and accountability. The board considers such commitment essential in balancing the interests of investors, customers and employees while advancing shareholder wealth through greater efficiency. The Company sees to it that the corporate governance agenda is focused on improving performance and not just bogged down in conformity and compliance.

Corporate Governance Practices

Throughout the accounting period covered by the annual report, the Company has met the code provisions of the Code on Corporate Governance Practices (the “CG Code”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) except for the deviation from code provision A.4.2.

At the beginning of the year, under the then articles of association of the Company: (a) any director appointed to fill a causal vacancy or as an addition to the board shall hold office only until the next following annual general meeting (article 94); and (b) all directors except the chairman shall be subject to retirement by rotation at least once every three years (articles 81, 82). In the latter connection, Mr. Cheung Chung Kiu, chairman of the directors, had never been subject to retirement by rotation since his appointment on 21 March 2001; nor had he been taken into account in determining the number of directors to retire each year.

In order to ensure compliance with code provision A.4.2, a special resolution was passed to amend the relevant articles at the annual general meeting held on 29 May 2006 to the effect that all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Directors’ Securities Transactions

The Company has adopted a code (the “Securities Code”) for directors’ dealing in its securities (of which the model code for dealings by directors in Appendix 10 to the Listing Rules (the “Model Code”) forms part) at least as exacting as the Model Code. Each director is given a copy of the Securities Code on appointment (or has been given one for those appointed before the adoption of the Securities Code) and thereafter twice annually, one month before the date of the board meeting to approve the Company’s half-year results or annual results, notification of the restraint period during which the directors (and their spouses and infant children) must not deal in any of the Company’s securities.

The Company has also adopted a code for relevant employees (within the meaning of the CG Code) regarding securities transactions on terms no less exacting than the required standard set out in the Model Code. Notification of the restraint period is given to the relevant employees in the same manner as the directors.

All directors have confirmed, following specific enquiries by the Company, that they have complied with the required standard set out in the Model Code and the Securities Code throughout the year.

Board of Directors

The Company is governed by a board of directors which assumes responsibility for leadership and control of the Company. The directors are collectively responsible for promoting the success of the Company by directing and supervising its affairs. In discharging their duties, the directors exercise care, diligence and skill and act in good faith and in the best interests of the Company and its shareholders as a whole.

The board is structured so that it makes the maximum contribution to the overall objective of preserving and creating wealth for shareholders. As at the date of this report, it comprises the chairman, the managing director and four other executive directors; and four non-executive directors three of whom are independent non-executive directors. Biographical details of the directors, which show a good balance of skills and experience among them, are given on pages 15 and 16.

The board met four times during the year at approximately quarterly intervals. Individual attendance of each director at those regular board meetings is set out in the table below.

Board of Directors	Regular Board Meetings Attended/Held
<i>Executive Director</i>	
Cheung Chung Kiu (<i>Chairman</i>)	4/4
Yeung Hin Chung, John (<i>Managing Director</i>)	4/4
Yuen Wing Shing	4/4
Wong Chi Keung	4/4
Leung Wai Fai	4/4
Tung Wai Lan, Iris	4/4
<i>Non-executive Director</i>	
Lee Ka Sze, Carmelo (<i>Note 1</i>)	4/4
<i>Independent Non-executive Director</i>	
Wong Wai Kwong, David (<i>Note 1</i>)	3/4
Wong Yat Fai (<i>Note 2</i>)	4/4
Ng Kwok Fu (<i>Note 2</i>)	4/4

Notes:

1. The term of office for Mr. Lee Ka Sze, Carmelo and Mr. Wong Wai Kwong, David is approximately two years, commencing 29 April 2005 and ending at the close of the annual general meeting in 2007.
2. The term of office for Mr. Wong Yat Fai and Mr. Ng Kwok Fu is approximately three years, commencing 29 May 2006 and ending at the close of the annual general meeting in 2009.
3. Notwithstanding any contractual or other terms of appointment or engagement, the non-executive directors are subject to retirement by rotation at least once every three years under the Company's articles of association and the Listing Rules.

The board's primary role is to protect and maximize long-term shareholder value and to balance broader stakeholder interests. It sets the business strategy of the Group and monitors its development in pursuit of the overall objective of wealth preservation and creation.

Board of Directors *(continued)*

The board, led by the chairman, is accountable to shareholders for the management of the Company. It appoints management and delegates thereto the powers and the authority to manage the Company while reserving certain decisions and actions for itself, and performing them effectively. The managing director in turn delegates aspects of management and administrative functions to executives who report directly to him on a regular basis.

Besides management appointments, the types of decisions to be taken by the board include the following: board and senior management; relations with the members and stakeholders; financial matters; business strategy; capital expenditures; lease or purchase of buildings; major transactions not included in the budget; actions or transactions involving legality or propriety; and internal control and reporting systems.

The directors acknowledge their responsibility for preparing the accounts. Such responsibility extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The board is also responsible for the integrity of financial information and for ensuring its timely disclosure. Arrangements are made which will allow them to be satisfied that the accounts are true and fair, which accurately disclose the financial position of the Company, and which comply with statutory requirements and applicable accounting standards.

The board acknowledges its responsibility for maintaining sound and effective internal controls and to this end reviews the effectiveness of the system of internal controls at least annually. The directors have conducted the annual review of the effectiveness of the Group's internal control system in 2006. The review covered all material controls, including financial, operational and compliance controls and risk management functions.

The Company has clearly established written policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Group's internal control system is designed to safeguard shareholders' investment and the assets against unauthorized use and disposition; to ensure the maintenance of proper accounting records and the truth and fairness of the financial statements; and to ensure compliance with relevant legislation and regulations. The board recognizes that the purpose of internal controls is to help manage and control, rather than eliminate, risks and internal controls can only provide reasonable, and not absolute, assurance against misstatement or loss.

The board confirms that the Company has a process for identifying, evaluating, and managing the significant risks to the achievement of its operational objectives. This process is subject to continuous improvement and was in place throughout 2006 and up to the date of this report. In formulating the risk management strategy, the board ensures that the risks facing the Company have been assessed, and that the policies for handling them are up to date and are being complied with. No significant control failings were reported during the year and up to the date of this report.

The board has delegated the day-to-day operations of the Company to a committee comprising all the executive directors and given clear directions as to the powers of management conferred thereon. The executive committee so established forms the core of the management team, with additional members from the second line of management.

Board of Directors *(continued)*

The main responsibilities of management are to execute the business strategies and initiatives adopted by the board; to consider and approve investments and divestments; and to manage the assets and liabilities of the Group in accordance with the policies and directives of the board.

Management reviews the operating and financial performance of the Group against agreed budgets and targets on a monthly basis. Major matters that are specifically discharged by management are the preparation of annual and interim reports, the implementation of systems of internal control and risk management, and compliance with all applicable rules and regulations.

The board has ratified a written statement giving clear directions as to the functions reserved for itself and those delegated to management. It reviews those arrangements on an annual basis to ensure that they remain appropriate to the needs of the Company.

In addition to the executive committee, the board has appointed two board committees (the remuneration committee and the audit committee) to deal with specific matters and to advise the board or, where appropriate, decide on behalf of the board on such matters. Both these committees have terms of reference which accord with the principles set out in the CG Code and are posted on the Company's website. The secretary of each appointed committee minutes all matters discussed or decided at each meeting and the work of each committee is reported to the board. Further information relating to the remuneration committee and the audit committee is provided in the remainder of this report.

The board has separate and independent access to information and to executives at all times. Management ensures that the board and its committees receive adequate information in a timely manner to enable them to make informed decisions. The right of access extends to board papers and related materials, as well as to the secretary of the Company who regularly updates the board on governance and regulatory matters. Any director, wishing to do so in furtherance of his or her duties, may seek through the chairman at the Company's expense such independent professional advice as may be recommended by the Company or as deemed fit by the independent non-executive directors provided that such approval may not be unreasonably withheld or delayed. The provision of independent professional advice is also available to the remuneration and audit committees.

New directors, together with existing board members, are provided with the opportunity to visit the operating divisions and meet up with management to gain a proper understanding of the Group's business and operations. Each newly appointed director is given a package of materials comprising the latest quarterly management reports, annual and interim reports of the Company, as well as guidelines on directors' duties and on corporate governance. In addition, the mini-library maintained by the company secretarial department, open to directors and senior management during office hours, is well stocked with publications of the Company and all applicable rules, codes, ordinances and acts to the Group. Directors are welcome to borrow these materials and make copies of them.

The Company has in force appropriate insurance cover on directors' and officers' liabilities arising from the Group's business. The extent of insurance cover is reviewed by management each year.

Chairman and Managing Director

The positions of chairman and managing director are held by separate individuals with the defined roles of managing the board and managing the affairs of the Company respectively. The board considers that vesting the roles in different individuals is essential in ensuring a balance of power and authority and in upholding independence, accountability and responsibility with respect to the management of the Company. The division of responsibilities between the chairman and managing director has been clearly established and set out in writing.

The chairman provides leadership for the board, ensuring its effectiveness in all aspects of its role. The managing director, supported by the management team, provides planning and implementation.

The chairman ensures that all directors are properly briefed on issues arising at board meetings and that all key and appropriate issues are discussed by the board in a timely manner. Board meetings for each year are scheduled in advance to give all directors an opportunity to attend, and are structured to encourage open discussion. All board members are encouraged to update their knowledge and familiarity with the Group through active participation at board meetings.

The chairman settles the agenda for each individual board meeting, taking into account any additional items proposed by the managing director and arising from current operating issues, as well as such other matters as may be raised by the other directors with him, who can include them on the agenda. The agenda and accompanying board papers are sent in full to all directors where possible at least 3 days before the time appointed for the meeting.

It is also the chairman's responsibility to control board meetings, to lead the board's discussions to clear conclusions, and to satisfy himself that the secretary of the meeting has understood each conclusion reached. The secretary and the qualified accountant of the Company attend board meetings to advise on corporate governance practices and accounting and financial matters, where appropriate.

Minutes of board meetings and meetings of board committees are kept by a duly appointed secretary of the meeting and open for inspection by any director. Draft and final versions of minutes of board meetings are sent to all directors for their comments and records respectively.

Remuneration of Directors

The Company established the remuneration committee on 30 June 2005 to discharge remuneration related duties, namely, to make proposals on remuneration policy and structure (and where appropriate, determine remuneration packages) and other human resources issues relating to directors and senior management.

As at the date of this report, the remuneration committee comprises the chairman of the board, Mr. Cheung Chung Kiu who is also chairman of the committee, and two independent non-executive directors, Mr. Wong Yat Fai and Mr. Ng Kwok Fu.

The remuneration committee met once during 2006 with attendance rate of 100%. No member took part in any discussion about his own remuneration at the meeting.

Remuneration of Directors *(continued)*

The principal elements of the executive remuneration package include basic salary, discretionary bonus without capping and share option (if any). The emoluments received by every executive director and senior executive are based on time commitment and responsibilities to be undertaken, and are determined with reference to corporate and individual performance as well as remuneration benchmark in the industry and the prevailing market conditions.

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to retain and maintain a stable, motivated and high-calibre management team by linking their remuneration with performance as measured against corporate objectives. Under the policy, no director is allowed to approve his or her own remuneration.

The remuneration committee has reviewed this policy, and determined individual remuneration packages of all executive directors in accordance therewith while delegating the approval of senior management's remuneration packages to Mr. Cheung Chung Kiu and Mr. Yuen Wing Shing. The committee considered that the executive directors' remuneration for 2006 was in line with comparators in peer group companies.

The remuneration of non-executive directors is subject to annual assessment and determined with reference to his qualifications, experience, involvement in the Company's affairs and the prevailing market level or remuneration of similar position.

Details of directors' remuneration, as determined by or on behalf of the board, are set out in note 6 to the financial statements on page 64.

Nomination of Directors

The full board participates in the selection of individuals nominated for directorships and the Company has not established a nomination committee. Individuals, suitably qualified and expected to make a positive contribution to the performance of the Company, are identified by existing directors and nominated to the board. When assessing the suitability of a candidate, the board takes into consideration factors such as time commitment, professional knowledge, expertise and industry experience, integrity and skill as well as the ability to demonstrate a standard of competence commensurate with the position as a director of a listed company. A candidate for the office of independent non-executive director must also satisfy the independence criteria set out in rule 3.13 of the Listing Rules.

Auditors' remuneration

Auditors' remuneration for the year amounted to a total of HK\$1.04 million, as to HK\$0.9 million for audit services, as to HK\$0.1 million for review services and as to HK\$0.04 million for tax and consultancy services.

Audit Committee

The Company established an audit committee on 1 January 1999 with reference to the guidelines issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). New terms of reference of the audit committee have been adopted to meet the requirements of the CG Code.

The audit committee is tasked with responsibilities relating to the auditing of the accounts, the accounting policies and practices adopted by the Group, as well as financial reporting and internal control matters. The committee meets regularly to discuss these matters and to this end has unrestricted access to the Company's management and external auditor. The committee is chaired by Mr. Wong Wai Kwong, David, an independent non-executive director with extensive experience in finance, accounting, corporate and taxation affairs. Other members are Mr. Wong Yat Fai and Mr. Ng Kwok Fu, who are independent non-executive directors, and Mr. Lee Ka Sze, Carmelo, non-executive director.

Regular meetings have been held by the audit committee since its establishment. The committee met three times during 2006 with attendance rate of 100% at each such meeting.

During the year, the audit committee reviewed the Company's interim and annual reports and accounts, paying attention to any changes in accounting policies and practices, major judgmental areas and significant adjustments arising from audit. It also reviewed the Company's financial reporting system and internal control procedures. The work and findings of the committee were reported to the board.

At a meeting held in November 2006 for that purpose, the audit committee received an annual report from management on their review of the effectiveness of the Group's internal control system. Management concluded, they were satisfied that the prevailing internal control system was adequately in place to facilitate the effectiveness and efficiency of operations, to safeguard assets against unauthorized use and disposition, to ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, as well as to ensure compliance with relevant legislation and regulations. There revealed no significant areas of improvement which were required to be brought to the attention of the audit committee. The committee discussed the report and concurred with the conclusion reached.

At the meeting last held in March 2007, the audit committee discussed with the external auditor their independence and scope of the audit. The committee was satisfied with the findings of its review with respect to audit issues, including the external auditor's independence and objectivity and the effectiveness of the audit process. The committee was also satisfied that all issues raised had been addressed by management, who confirmed that save as disclosed in the accounts, there existed no other matters which were required to be brought to their attention.

The audit committee also reviewed the Company's financial controls, internal control and risk management systems and ensured that management had discharged its duty to maintain an effective internal control system. Management confirmed that there had been no changes in the Company's business and in the operating units since the last annual review in November 2006. The committee concluded that there had been no changes since the last annual review in the nature and extent of significant risks and as such, no additional work was necessary. The committee concurred with the findings of the November report.

Audit Committee *(continued)*

The committee also noted management's view that there was no immediate need for an internal audit function. Management would review the situation from time to time.

The audit committee has recommended to the board the re-appointment of KPMG as the Company's external auditor for 2007 and delegated to management to approve the remuneration and the terms of engagement of the external auditor. The committee has also recommended to the board the tabling of the 2006 accounts for shareholders' approval at the forthcoming annual general meeting.

Conclusion

The board believes that the Company maintains good corporate governance practices throughout the year. The board continues to review those practices, with a view to achieving the objective of wealth preservation and creation for shareholders.